



SECURITY COUNCIL REPORT, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

INDEPENDENT AUDITORS' REPORT

Board of Directors
Security Council Report, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Security Council Report, Inc. ("SCR"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

SCR's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Security Council Report, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



New York, New York
June 27, 2013

SECURITY COUNCIL REPORT, INC.

Statements of Financial Position

	December 31,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 1,096,577	\$ 1,087,239
Grants receivable, net	767,329	1,795,060
Security deposits	130,744	130,744
Prepaid expenses	5,999	
	<u>\$ 2,000,649</u>	<u>\$ 3,013,043</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 102,739	\$ 64,467
Deferred rent	74,057	80,476
Due to/from Columbia University		100,379
	<u>176,796</u>	<u>245,322</u>
Total liabilities		
Commitments (Note F)		
Net assets:		
Unrestricted (net of cumulative foreign currency gains of \$5,673 at 2012 and losses of \$3,490 at 2011)	987,387	777,915
Temporarily restricted	836,466	1,989,806
	<u>1,823,853</u>	<u>2,767,721</u>
	<u>\$ 2,000,649</u>	<u>\$ 3,013,043</u>

SECURITY COUNCIL REPORT, INC.

Statements of Activities

	Year Ended December 31,					
	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Grants and contributions	\$ 1,393,991	\$ 393,301	\$ 1,787,292	\$ 2,225,364	\$ 2,251,406	\$ 4,476,770
Other income	247		247	6,971		6,971
Total revenue and support before release of restrictions	1,394,238	393,301	1,787,539	2,232,335	2,251,406	4,483,741
Net assets released from restrictions	1,546,641	(1,546,641)	0	879,045	(879,045)	0
Total revenue and support	2,940,879	(1,153,340)	1,787,539	3,111,380	1,372,361	4,483,741
Expenses:						
Program services	2,454,969		2,454,969	2,456,966		2,456,966
Management and general	199,582		199,582	494,733		494,733
Fund-raising	85,904		85,904	164,907		164,907
Total expenses	2,740,455		2,740,455	3,116,606		3,116,606
Change in net assets before foreign currency translation gains (losses)	200,424	(1,153,340)	(952,916)	(5,226)	1,372,361	1,367,135
Foreign currency translation gains (losses)	9,048		9,048	(3,490)		(3,490)
Change in net assets	209,472	(1,153,340)	(943,868)	(8,716)	1,372,361	1,363,645
Net assets - beginning of year	777,915	1,989,806	2,767,721	786,631	617,445	1,404,076
Net assets - end of year	<u>\$ 987,387</u>	<u>\$ 836,466</u>	<u>\$ 1,823,853</u>	<u>\$ 777,915</u>	<u>\$ 1,989,806</u>	<u>\$ 2,767,721</u>

See notes to financial statements

SECURITY COUNCIL REPORT, INC.**Statement of Functional Expenses
Year Ended December 31, 2012**

	Program Services	Management and General	Fund- raising	Total
Salaries and benefits	\$ 1,477,615	\$ 95,683	\$ 50,410	\$ 1,623,708
Occupancy	240,066	28,243	14,122	282,431
Publication design	438,759			438,759
General services		18,295		18,295
Research consultants	31,578	4,800		36,378
Telephone	26,403	3,106	1,553	31,062
Professional fees		32,296	15,000	47,296
Office expenses	42,650	5,005	2,502	50,157
Information technology	30,488	3,587	1,793	35,868
International advisory group	64,546			64,546
Governing board expenses	4,103	482	241	4,826
Travel	24,163			24,163
Outreach	69,783			69,783
Postage	4,815	567	283	5,665
Other		7,518		7,518
	<u>\$ 2,454,969</u>	<u>\$ 199,582</u>	<u>\$ 85,904</u>	<u>\$ 2,740,455</u>

SECURITY COUNCIL REPORT, INC.**Statement of Functional Expenses
Year Ended December 31, 2011**

	Program Services	Management and General	Fund- raising	Total
Salaries and benefits	\$ 1,469,756	\$ 172,913	\$ 86,456	\$ 1,729,125
Occupancy	253,748	29,853	14,926	298,527
Publication design	320,709			320,709
General services		27,299		27,299
Moving costs		6,998		6,998
Research consultants	55,869	5,000		60,869
Telephone	43,637	5,134	2,567	51,338
Professional fees		99,686	43,032	142,718
Office expenses	56,908	6,695	3,348	66,951
Information technology	69,633	8,663	4,331	82,627
International advisory group	47,576			47,576
Travel	33,258	131,998	10,000	175,256
Outreach	101,671			101,671
Postage	2,279	268	134	2,681
Other	<u>1,922</u>	<u>226</u>	<u>113</u>	<u>2,261</u>
	<u>\$ 2,456,966</u>	<u>\$ 494,733</u>	<u>\$ 164,907</u>	<u>\$ 3,116,606</u>

SECURITY COUNCIL REPORT, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (943,868)	\$ 1,363,645
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	16,113	
Foreign currency translation (gains) losses	(9,048)	3,490
Changes in:		
Grants receivable	1,020,666	(1,099,543)
Prepaid expense	(5,999)	
Security deposits		26,150
Accounts payable	38,272	(401)
Deferred rent	(6,419)	69,849
Due to/from Columbia University	(100,379)	99,906
Net increase in cash and cash equivalents	9,338	463,096
Cash and cash equivalents - beginning of year	<u>1,087,239</u>	<u>624,143</u>
Cash and cash equivalents - end of year	<u>\$ 1,096,577</u>	<u>\$ 1,087,239</u>

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2012 and 2011

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The Security Council Report, Inc. ("SCR"), a not-for-profit organization incorporated in New York, was established in 2004 to provide timely, accurate and objective information and analysis on the activities of the United Nations Security Council (the "Security Council"). This information and analysis is provided for the benefit of member states of the United Nations, particularly the ten elected members of the Security Council, but also the wider United Nations membership, the United Nations Secretariat, and the public.

SCR is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and from state and local taxes under comparable laws.

[2] Financial reporting:

(a) Basis of accounting:

The accompanying financial statements have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as applicable to not-for-profit organizations.

(b) Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services using reasonable ratios determined by management. In 2012, management made changes in certain of the functional categories, resulting in some balances that differ from the balances reported in 2011.

(c) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

(d) Cash and cash equivalents:

For financial reporting purposes, SCR considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

(e) Fair-value measurement:

SCR reports a fair-value measurement of all applicable financial assets and liabilities.

(f) Net assets:

SCR's net assets, as well as its revenues, expenses, gains and losses, are classified in the financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets and changes therein are classified and reported as follows:

(i) *Unrestricted:*

Unrestricted net assets represent those resources that are not subject to donor-imposed restrictions.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2012 and 2011

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Financial reporting: (continued)

(f) Net assets: (continued)

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that have been restricted by donors for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

[3] Grants:

The operations of SCR are financed principally by foundation grants and contributions received from foreign governments. Grants and contributions received are recorded as unrestricted or temporarily restricted support depending on the existence or absence of any donor restrictions.

[4] Income taxes:

SCR follows the provisions of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") Topic 740-10-05 relating to accounting and reporting for uncertainty in income taxes. Because of SCR's general tax-exempt status, the adoption of ASC Topic 740-10-05 has not had, and is not expected to have, a material impact on SCR's financial statements.

[5] Deferred rent:

The difference between rent expense incurred by SCR on an accrual basis and the rent amounts paid in cash, as well as the unamortized portion of rent concessions and landlord contributions to leasehold improvement projects, is reported as deferred rent payable in the accompanying statements of financial position.

[6] Foreign currency translation:

Foreign currency translation gains or losses are the inherent result of the process of translating into U.S. dollars, for financial-reporting purposes, SCR's foreign operations as stated in its respective functional currencies. Such annual translation adjustments are not included in determining the net change in assets from operations, but they are instead disclosed as a separate component in the accompanying statements of activities. Likewise, the cumulative translation gains or losses continue to be reported as an element of unrestricted net assets in the accompanying statements of financial position.

The applicable exchange rates for 2012 were as follows:

0.9944 CAD/USD
1.3280 EUR/USD
0.1767 DKK/USD
0.1797 NOK/USD
0.1535 SEK/USD
1.0958 CHF/USD

[7] Subsequent events:

SCR considers the accounting treatments and the related disclosures in the current year's financial statements that may be required as the result of all events or transactions that occur after the year-end through the date of the independent auditors' report.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2012 and 2011

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Accrued vacation:

SCR's employees are entitled to be paid for unused vacation time if they leave SCR. Accordingly, at each year-end, SCR must recognize a liability for the amount that would be incurred if employees with such unused vacation were to leave. The accrued vacation obligations for 2012 and 2011 were approximately \$64,000 and \$26,000, respectively.

NOTE B - GRANTS AND CONTRIBUTIONS RECEIVABLE

At each year-end, grants and contributions receivable consisted of the following:

	December 31,	
	2012	2011
Less than one year	\$ 783,442	\$ 1,130,207
One to three years		733,000
Total grants receivable	783,442	1,863,207
Reduction of grants due in excess of one year to present value, at a discount rate of 5%	0	(68,147)
	783,442	1,795,060
Allowance for doubtful accounts	(16,113)	0
	\$ 767,329	\$ 1,795,060

SCR's grants receivable consisted of grants the amounts of which had not been fully collected as of year-end. Amounts not due within one year have been discounted to present value. Grants receivable are from major institutional grantors.

NOTE C - DUE TO/FROM COLUMBIA UNIVERSITY

Pursuant to an original agreement between SCR and Columbia University, Columbia provided office space, personnel and supplies, in return for which SCR reimbursed Columbia and paid a general and administrative fee not to exceed 7% of the overall budget. The general and administrative fee for 2012 and 2011 was \$7,518 and \$27,299, respectively. Effective August 31, 2011, Columbia University and SCR terminated the agreement, thus eliminating the provision of facilities by Columbia.

At December 31, 2011, the net balance due to Columbia was \$100,379.

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2012 and 2011

NOTE D - TEMPORARILY RESTRICTED NET ASSETS

At each year-end, temporarily restricted net assets consisted of the following:

	December 31,	
	2012	2011
Restricted for future periods	<u>\$ 836,466</u>	<u>\$ 1,893,206</u>
Restricted for the following purpose:		
Capacity Building Program		56,600
What's in Blue		<u>40,000</u>
		<u>96,600</u>
	<u>\$ 836,466</u>	<u>\$ 1,989,806</u>

During each year, net assets released from restrictions resulted from satisfying the following donor restrictions:

	Year Ended December 31,	
	2012	2011
Time restrictions satisfied	<u>\$ 1,160,206</u>	<u>\$ 617,445</u>
Restricted for the following purpose:		
Capacity Building Program	139,550	56,600
What's in Blue	226,885	175,000
Empowering developing countries on the United Nations Security Council	20,000	
Improving the relationship between the United Nations and the African Union		<u>30,000</u>
	<u>386,435</u>	<u>261,600</u>
	<u>\$ 1,546,641</u>	<u>\$ 879,045</u>

NOTE E - RELATED-PARTY TRANSACTIONS

Three members of the SCR Board of Directors in 2012 and five members of the Board in 2011 were also stewards of private foundations and/or foreign governments that are principal contributors of resources to SCR; the total amount contributed was approximately \$1,000,000 and \$3,900,000 for 2012 and 2011, respectively

SECURITY COUNCIL REPORT, INC.

Notes to Financial Statements December 31, 2012 and 2011

NOTE F - LEASE COMMITMENT

SCR leases office space for a term that ends in December 2018. Future minimum non-cancelable annual lease payments for this space, excluding escalations for operating expense and real estate tax increases, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 261,488
2014	261,861
2015	270,440
2016	270,440
2017	270,440
2018	<u>270,440</u>
Total	<u>\$ 1,605,109</u>

Rent expense for 2012 and 2011 was \$282,431 and \$298,527, respectively.

In 2012 and 2011, SCR maintained the security deposit in a letter of credit that is collateralized by an escrow account held at a financial institution.

NOTE G - LINE OF CREDIT

In 2011, SCR entered into a business line of credit in the amount of \$25,000 with JP Morgan Chase. The line of credit is secured by SCR's assets, and borrowings bear interest at 13.24%. At December 31, 2012, there was no outstanding balance due.

NOTE H - RISK CONSIDERATIONS

SCR deposits its cash in one financial institution in amounts which, at times, may exceed federally insured limits. Management believes SCR is not exposed to any significant risk of loss due to the failure of the financial institution.

In addition, as a percentage of its total support each year, SCR received 69% from four grantors in 2012 and 82% from three grantors in 2011.